

**California Department of Insurance
Proposition 103 Recoupment Fee Overview
Fiscal Year 2014-15**

Introduction

This document describes the process by which the Proposition 103 Recoupment Fee Assessment for Fiscal Year (FY) 2014-15 was calculated. The assessment is based on FY 2013-14 actual expenditures and FY 2014-15 projected expenditures.

Background

On November 8, 1988, California voters passed Proposition 103. The California Department of Insurance (CDI) was charged with creating new programs and expanding existing operations to meet the mandates of Proposition 103. California Insurance Code (CIC) Sections 1861.01 – 1861.16 contain the provisions set forth by Proposition 103. The following are the major Proposition 103 provisions:

| CIC Section | Title |
|--------------------|--|
| 1861.01 | Insurance rate rollback |
| 1861.02 | Determination of rates; good driver discount plan |
| 1861.025 | Good driver discount policy; criteria for qualification |
| 1861.03 | Unfair insurance practices; prohibition |
| 1861.04 | Full disclosure of insurance information |
| 1861.05 | Approval of insurance rates |
| 1861.055 | Regulations governing hearings; adoption; rendering of decision |
| 1861.06 | Public notice |
| 1861.07 | Public inspection |
| 1861.08 | Hearings; law governing |
| 1861.09 | Judicial review |
| 1861.10 | Consumer participation |
| 1861.11 | Emergency authority |
| 1861.12 | Group insurance plans |
| 1861.13 | Application |
| 1861.137 | Credit insurance |
| 1861.14 | Enforcement and penalties |
| 1861.15 | Good driver discounts; minimum financial responsibility coverage policies |
| 1861.16 | Commission on issuing policy in minimum financial responsibility coverage amount; requiring sale of good driver discount policies; exceptions; interim rating plan |

Effective January 1, 1995, Chapter 965, Statutes of 1994, added CIC Sections 12991 and 12992 et. seq., requiring CDI to assess Proposition 103 fees based on

administrative and operational CDI actual costs and to create a new fee schedule on or after October 1, 1995.

Proposition 103 costs shall apply to all insurance on risks or on operations in California, excluding exemptions as specified in CIC Section 1851. The lines of business subject to Proposition 103 costs are listed below:

| LINE NO. | LINE OF BUSINESS |
|-----------------|--|
| 1 | Fire |
| 2.1 | Allied Lines |
| 3 | Farmowners' Multiple Peril |
| 4 | Homeowners' Multiple Peril |
| 5.1 | Commercial Multiple Peril (Non-Liability) |
| 5.2 | Commercial Multiple Peril (Liability) |
| 9 | Inland Marine |
| 10 | Financial Guaranty |
| 11 | Medical Malpractice |
| 12 | Earthquake |
| 17.1 | Other Liability (Occurrence) |
| 17.2 | Other Liability (Claims Made) |
| 18 | Products Liability |
| 19.1 | Private Passenger Auto No-Fault (Personal Injury Protection) |
| 19.2 | Private Passenger Auto Liability |
| 19.3 | Commercial Auto No-Fault (Personal Injury Protection) |
| 19.4 | Commercial Auto Liability |
| 21.1 | Private Passenger Auto Physical Damage |
| 21.2 | Commercial Auto Physical Damage |
| 22 | Aircraft |
| 23 | Fidelity |
| 24 | Surety |
| 26 | Burglary and Theft |
| 27 | Boiler and Machinery |
| 28 | Credit |
| 30 | Warranty |
| 34 | Aggregate Write-Ins for Other Lines |

Methodology for Calculating Proposition 103 Costs

CDI's time and activity reporting systems require employees to maintain monthly timesheets on work activities and tasks. Timesheet information is provided to the California State Accounting and Reporting System (CALSTARS). CALSTARS was developed for state agencies by the Department of Finance, pursuant to Government Code Section 13300, to account for and monitor revenues, expenditures, receipts, disbursements, and resources.

The Proposition 103 annual recoupment fee calculation is based on actual cost information from CALSTARS, which reports costs by CDI's organization and program structure. Organization costs are reported by each Branch/Division/Bureau/Unit within CDI. Program costs categories are designated by the Department to provide costs of

CDI activities such as Proposition 103, examinations, fraud, and other regulatory functions.

To project current year Proposition 103 costs, CDI analyzes the actual prior year expenditures and makes adjustments for known workload and appropriation changes for the current year. This process also rolls forward adjustments of any prior year under/over collection of assessments to determine the current year adjusted recoupment fee costs.

Fee Assessment Determination

Pursuant to the California Code of Regulations, Title 10, Chapter 5, Subchapter ~~4.7~~ **4.8**, Article 7, Section 2647.1, the recoupment fee assessment process ensures that each insurer pays a fair share of CDI's actual cost of administering Proposition 103 based on the insurer's regulatory burden. The sum of all insurers' annual fee assessments is equal to CDI's expected Proposition 103 costs for the current year and adjustments from the prior year. It also includes a contingency reserve to meet unanticipated fluctuations in expenditures and revenues.

Each insurer's annual Proposition 103 Recoupment Fee Assessment is based on the assessment factor correlating to the written premiums for each direct line of business subject to Proposition 103 (from Exhibit C) multiplied by the base rate.

CDI's Rate Specialist Unit calculated the base rate for FY 2014-15 to be \$311. This rate will cover anticipated FY 2014-15 Proposition 103 costs of \$29.2 million.

Billings

CDI will bill each insurer quarterly during FY 2014-15 (July 1, 2014 - June 30, 2015).